RECEIVED
DOCKET FILE COPY ORIGINAL
JUL 16 2001
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Phase 2 of the Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers	))))	CC Docket No. 00-199

COMMENTS OF SBC COMMUNICATIONS INC.

Pursuant to 47 C.F.R. §1.415 of the Commission's Rules, Southwestern Bell Corporation, for itself and its wholly owned affiliates (collectively SBC), submits the following comments in response to the *Public Notice* (PN), DA 01-1403, on additions, consolidations, or elimination of accounts for Class A and Class B companies, released June 8, 2001, in the above captioned docket.

I. Introduction and Summary

On October 18, 2000, the Commission released a *Notice of Proposed Rulemaking* (NPRM)[1] seeking comment on, *inter alia*, changes to the Part 32 Uniform System of Accounts (USOA). One of the FCC's goals in that proceeding is to update its accounting system based on changes in the marketplace and in technology. The Commission, based on its review of the specific accounts and comments filed thus far in that phase of the proceeding, now has turned its focus on streamlining the Commission's Class A and Class B accounts. In this Phase 2 of the *Notice* the Commission is proposing to add, consolidate, or eliminate accounts from its Class A and Class B chart of accounts. SBC applauds the Commission's efforts to further simplify the

[1] *In the Matter of 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Requirements for Incumbent Local Exchange Carriers: Phase 2 and Phase 3*, CC Docket No. 00-199, *Notice of Proposed Rulemaking*, FCC 00-364, released October 18, 2000.

No. of Copies rec'd 0+4
List ABCDE

regulatory accounting process; however, SBC believes that the Commission's proposal in this phase of the streamlining docket falls short of the statutory requirement that the Commission eliminate all regulations that are "no longer necessary to the public interest." 47 C.F.R. §161(b). Thus, SBC generally supports the comments of the United States Telecom Association (USTA) filed in this phase of the proceeding. SBC's comments, along with USTA's, encourage additional streamlining and provide insight into the impact on incumbent local exchange carriers of the proposed changes that are not in the best interest of the public, nor the telecommunications investment community.

The *Public Notice* includes additions to the chart of accounts and thus ignores the statute by proposing to *increase* regulation through additional, highly burdensome reporting requirements. This proposed additional regulation is outside the scope of the biennial review proceeding.[2]

II. The Functionality and *Non-A Priori* Principles Should Not Be Destroyed

The Commission proposes adding new expense accounts for Unbundled Network Elements (UNE), Resale, and other interconnection expenses. The Notice is unclear as to the purpose of the proposed expense accounts for UNE, Resale, and other interconnection expenses; SBC assumes the Commission's intent is that expenses incurred when an ILEC purchases UNE, Resale, and other interconnection services from others are to be recorded into these accounts. This proposal is contrary to the very foundation of Part 32 because Part 32(b) specifically states that the basis of the expense accounts are "the *functions* performed by individuals." (*Emphasis*

[2]Pursuant to Section 11 of the Communications Act, the Commission, in every even-numbered year, reviews all regulations that apply to the operations and activities of any provider of telecommunications service and "determine[s] whether any such regulation is no longer necessary in the public interest as the result of meaningful economic competition between providers of such service" and "shall repeal or modify any regulation it determines to be no longer necessary in the public interest." 47 U.S.C. §161.

added) UNE, Resale, and other interconnections are *products* and *services.* SBC urges the Commission to not destroy the functionality principle that is the cornerstone of the Uniform System of Accounts.

Alternatively, if these new accounts are to be utilized to book actual expenses incurred to provision these services, SBC argues that these accounts would be unnecessarily burdensome for several reasons. First, UNE and interconnection prices are determined utilizing an extensive negotiation and arbitration process that involves complex forward-looking prices. Thus, historical embedded cost is not a particularly useful figure in the context of setting wholesale prices. Second, the network that is used to provide service to SBC's local exchange end-users is practically the same network that comprises services sold to our wholesale customers. Thus, the UNE services and other interconnection services involve nearly every revenue and expense account in Part 32. An enormous amount of administrative effort and systems time and expense would have to be invested in order to segregate the costs and allocate them between the various types of local exchange services that SBC provides to its retail and wholesale customers. Finally, the reallocation of these expenses to accounts based on service type would result in the loss of the account structure.

Furthermore, the proposed expense accounts would require the ILECs to allocate plant operations functions and activities into the accounts for the respective products and services, prior to recording the final account activity. Part 32.2 (c) specifically states that "the financial accounts of a company should not reflect an *a priori* allocation of revenues, investments or expenses to products or services." The use of these proposed service specific expense accounts in an attempt to capture total embedded cost would require the allocation of expenses *a priori*, in contravention of current FCC rules.

III. Public Interest Will Not Be Served By Imposing Additional Regulatory Burdens

The Notice also proposes to add more accounts by requiring separate accounts to distinguish circuit versus packet investment in both the electronic and optical switching accounts, and electronic versus optical investment in both the switching and circuit accounts. Associated expense accounts are also proposed. This is a tremendous burden with no apparent consumer benefit. To the contrary, there is a potential consumer harm in that resources needed to implement and maintain the requirements for this reporting nicety would have to be diverted from activities that could better serve consumers. This change would require additional costs to be incurred by project managers who would be required to manually allocate the costs for each project into these new categories. Those additional project management costs coupled with the additional cost to be incurred to modify and maintain various systems, and change and manage a more complex inventory and accounting process, would far outweigh any benefit that the customer could derive if these resources were spent on maintaining and enhancing customer service. Additionally, this process would also be in contravention of the rule forbidding *a priori* allocations.

IV. Conclusion

SBC urges that the time is now for the Commission to move the accounting streamlining project forward and continue to consolidate and delete accounts that have outlived their usefulness. The goal of both the Commission and SBC should be to conserve the economic viability of our nation's telecommunications providers, so that both their regulators and service providers may better serve the American consumers. There is much work to be done to reach this shared goal. SBC encourages the Commission to maximize its resources by focusing on further streamlining the regulatory accounting requirements governing property records, retirements and depreciation – areas that impose tremendous administrative burdens on companies to maintain and on regulators to regulate. Therefore, SBC urges the Commission to continue its progress towards the reform and eventual elimination of outdated regulatory mechanisms that are out of step with today's rapidly-evolving telecommunications marketplace.[3]

Respectfully submitted,

SBC COMMUNICATIONS INC.

By Paul E. D— FOR JUANITA HARRIS

Juanita Harris
Roger K. Toppins
Paul K. Mancini

1401 I Street NW 11th Floor
Washington, D.C. 20005
202-326-8893-Phone
202-408-8745-Facsimile

Its Attorneys

July 16, 2001

[3] FCC# 01-162, Jurisdictional Separations and Referral to the Federal-State Joint Board, CC Docket No. 80-286, REPORT AND ORDER, Adopted: May 11, 2001, Released: May 22, 2001, at I.1. "Today we take a significant step towards reforming outdated regulatory mechanisms that are out of step with today's rapidly-evolving telecommunications marketplace. ...[W]e need to reexamine regulatory structures that apply only to incumbent local exchange carriers. We take the first step in this Report and Order towards the eventual reform or elimination of one such regulatory structure."

CERTIFICATE OF SERVICE

I, Lacretia Hill, do hereby certify that on this 16th Day of July, a copy of the foregoing "Comments" was served by hand delivery to the parties listed below.

***Ernestine Creech**
Accounting Safeguards Division
Federal Communications Commission
445 12th Street SW Room 6-C317
Washington, DC 20554

Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street SW
Washington, DC 20554

***ITS**
445 12th Street SW
Washington, DC 20554

Lacretia Hill

*Disk copy only